

# Economic Update The Netherlands

2 October 2012

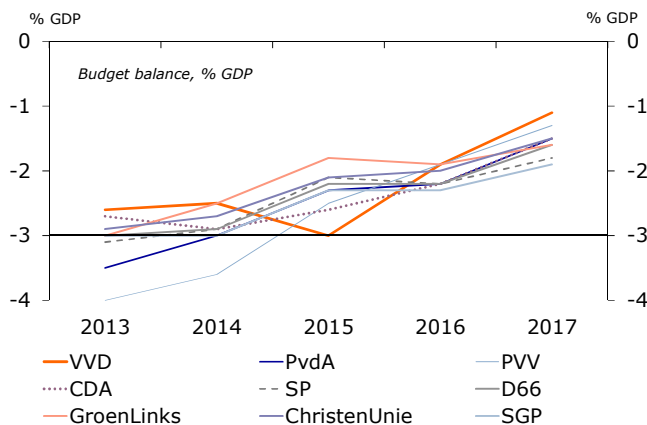
## No domestic demand recovery yet

	2011	2012	2013
<i>Year-on-year change in %</i>			
Gross Domestic Product	1.1	-½	½
Private consumption	-1.0	-1	0
Government expenditures	0.1	-¼	-1
Private investment	8.9	-2¼	1
Exports of goods and services	3.9	4½	5
Imports of goods and services	3.6	3½	4
Consumer price index	2.4	2½	2
Unemployment (% labour force)	5.4	6½	7
Government budget (% GDP)	-5.0	-3.6	-2.7
Government debt (% GDP)	65.4	71.6	72.9
Current account balance (% GDP)	6¾	7¼	7

The second forecast of 12Q2 GDP growth by Statistics Netherlands (CBS) did not bring any surprises: quarterly growth was maintained at 0.2%. Net trade was the only factor that positively contributed to economic growth. The main reason behind the trade engine performing well is the weak euro. Domestic demand dynamics are still weak due to uncertainty surrounding the European debt crisis, declining housing prices and the threat of pensions being cut. Since domestic recovery fails to occur as of yet, economic growth is expected to remain mild over the next quarters.

Source: Statistics Netherlands, Rabobank

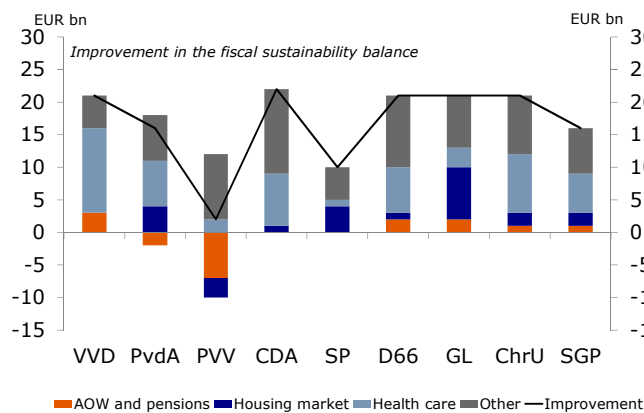
## Political parties reduce deficit ...



The calculations by Netherlands Bureau for Economic Policy Analysis (CPB) of the economic effects of political parties' election programmes show that all parties plan to reduce the budget deficit up to 2017. However, parties disagree over the pace of budget deficit reductions and the type of measures they want to take. Among the most likely candidates to form a government – Liberal Party (VVD) and Labour Party (PvdA), the former primarily aims for cutbacks on social security spending and health care. The VVD furthermore significantly increases taxes for households. By comparison, PvdA is implementing less tax hikes, but cuts back more heavily on safety, defense and infrastructure.

Source: CPB

## ... and improve the fiscal sustainability balance



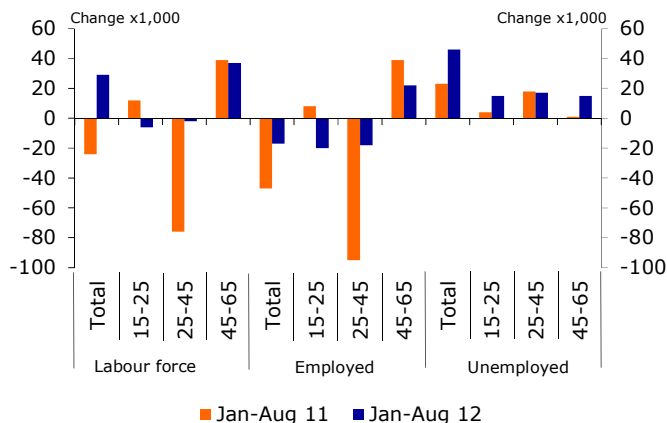
Political parties show a willingness to take structural measures regarding the AOW (statutory retirement age), housing market and health care. Due to these measures the sustainability balance – the budget surplus needed to maintain the current arrangements of the social welfare state – will improve. However, parties do differ on the type of measures that should be taken. The PvdA wants to reverse some of the free market elements in the health care system. Conversely, VVD demand higher contributions from citizens to health care. The VVD also wants to step up the pace by which the AOW-age is increased, while PvdA initially wants to slow down the AOW increase.

Source: CPB

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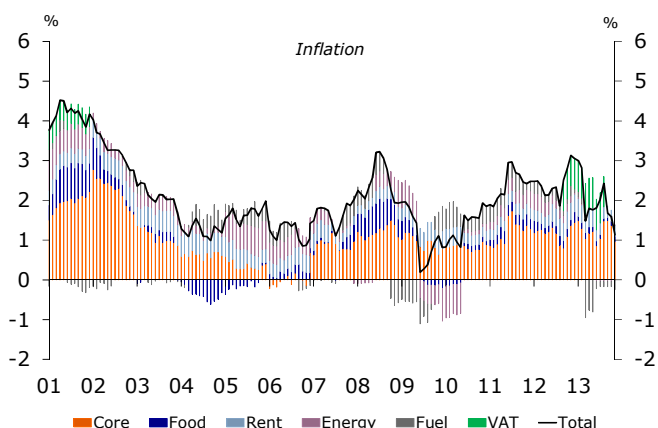
### Unemployment is rising



The unemployment rate has increased by 1.5%-point in just over a year. In August 514,000 people who wanted to work for at least 12 hours per week could not find a job. This amounts to 6.5% of the labour force. Contrary to the period January-August 2011, the increase in unemployment this year originated from an increase in labour supply and to a lesser extent from a decrease in employment. Labour supply particularly increased among 45-65 year olds. Possible explanations for this trend are (i) the return of 'discouraged workers' to the labour market and (ii) the phasing out of early retirement schemes (VUT) whereby people remain attached to the labour market for a longer period.

Source: Statistics Netherlands

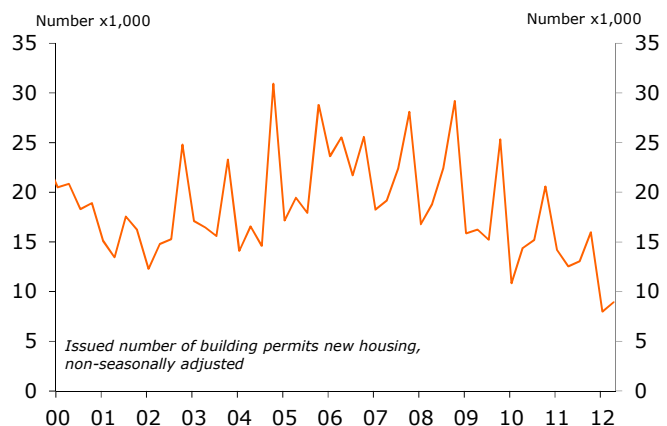
### Inflation rises due to VAT hike



The highest VAT tariff of consumer taxes has been raised from 19% to 21% as of 1 October. This results in additional price increases in the final months of 2012. The expectation is that in the short run producers will only pass on a part of the VAT-increase to consumers. Inflation over 2012 as a whole is expected to be 2½%. Besides the increase in VAT, the duties on beer, wine and tobacco has also gone up. This will lead to slightly higher inflation as well. The upward pressure from higher VAT and duties on inflation will disappear in the second half of 2013. Our forecast is that the average price level in 2013 will increase by 2%.

Source: Statistics Netherlands

### Fewer building permits issued



In the first half of 2012 almost 17,000 building permits have been issued, a decline of 37% compared to the same period last year. The Dutch cooperation of builders (NVB) expects a further decline of building production over the next quarters. The market for new houses is going through a difficult period. The large supply of existing housing leads to intense competition for new housing. Moreover, the competitive advantage of new housing has also declined because of the reduction in the transfer tax from 6% to 2% (which is only paid on the purchase of existing homes). Adding to the reduced attractiveness of new housing is also the VAT increase, as explained above.

Source: Statistics Netherlands

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